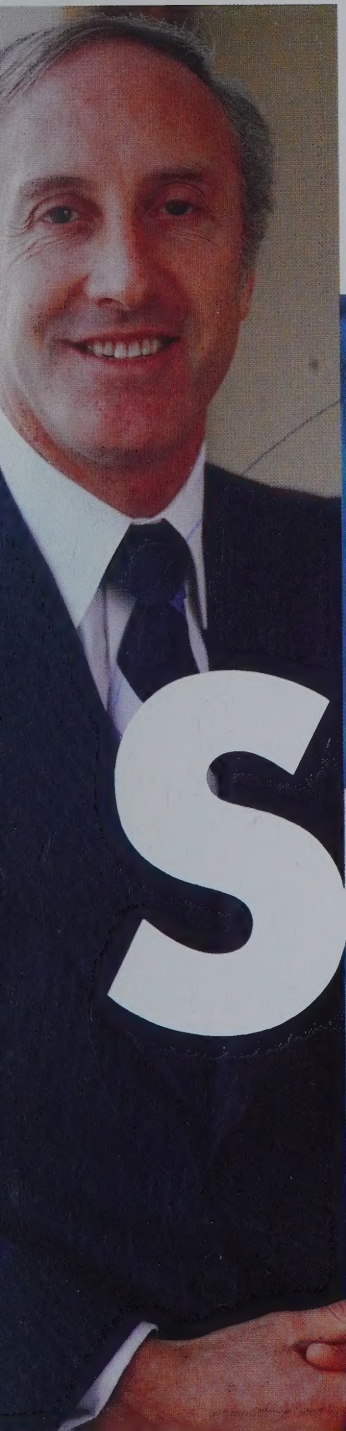
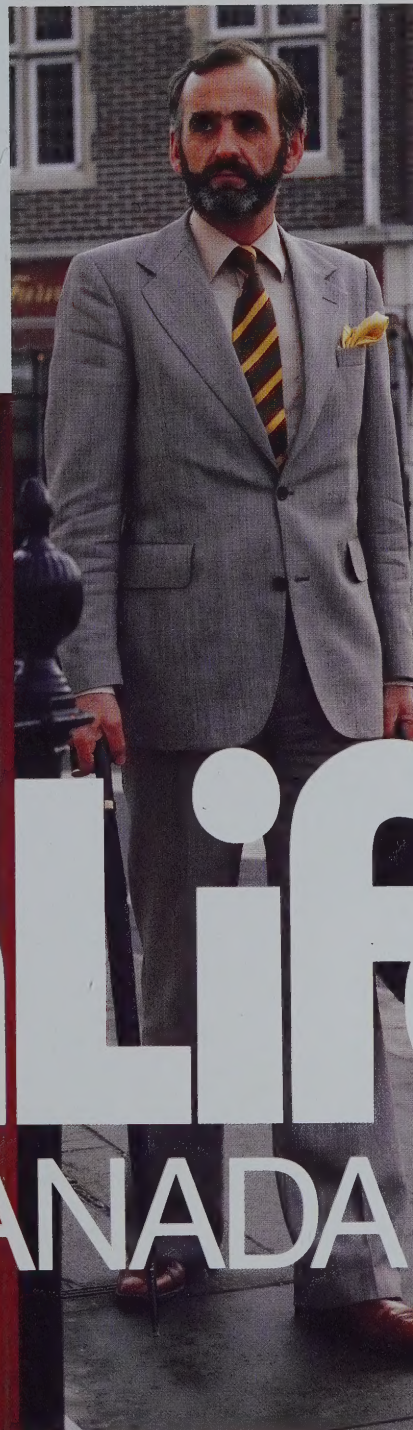


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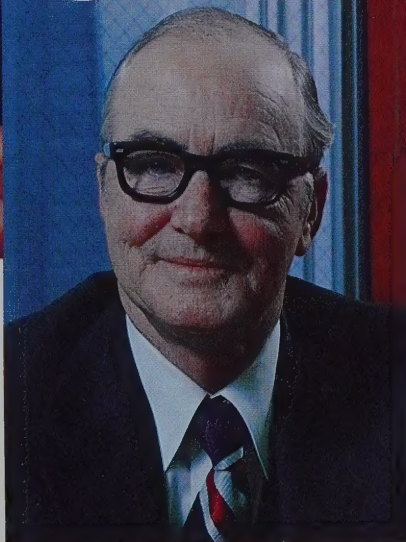


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SunLife

OF CANADA



Sun Life
Assurance Company
of Canada

1978 Highlights

	1977	1978
Total Payments to Policyholders and Beneficiaries	\$ 534,606,105	\$ 585,350,523
Dividends to Policyholders	\$ 104,833,601	\$ 115,578,044
Assets, December 31st	\$ 5,559,536,563	\$ 6,395,014,368
Total Revenue for the Year	\$ 1,121,751,089	\$ 1,381,972,040
Life Insurance:		
New Amounts	\$ 4,519,080,010	\$ 4,793,418,676
Amounts in Force	\$35,910,581,529	\$ 41,900,945,700
Premiums Received:		
Life Insurance	\$ 416,001,863	\$ 457,588,930
Annuities	\$ 159,801,870	\$ 183,895,074
Health Insurance	\$ 71,258,153	\$ 82,225,117
Segregated Funds	\$ 62,760,360	\$ 71,739,522

Note: For comparative purposes, the 1977 Assets have been restated on the new reporting basis.

The cover of our annual report features four leading Sun Life managers. Left to right they are J. J. Driscoll, Manager of the Calgary Foothills branch and Chairman of the 1978 Canadian Managers Consultation Committee; E. S. Stuart, Manager of the Toronto Group branch and Chairman of the 1978 Group Managers Committee; P. C. L. Germain, Branch Manager and Regional Advisor for Birmingham Central and senior member of the 1978 British committee; and D. S. Burnstein, Regional Manager of the Greater Detroit Regional branch and Chairman of the 1978 U.S. committee.

The committees on which these managers serve play an important role in the Company's marketing operations. They meet regularly with senior officers to discuss Company policies and strategies with respect to sales and related activities.



The Directors

Thomas M. Galt, F.S.A.
Chairman and Chief Executive Officer
George F. S. Clarke, F.S.A.
President
Alistair M. Campbell, F.I.A., F.S.A.
Chairman of the Executive Committee
of the Board

Claude Bertrand, C.C., M.D.
Chief Emeritus, Department of Neurosurgery,
Hôpital Notre-Dame, Montreal

Frank M. Covert, O.B.E., D.F.C., Q.C.
Senior Partner,
Stewart, MacKeen & Covert

H. Roy Crabtree, C.D.
Chairman and President,
Wabasso Limited

Albert L. Fairley, Jr.
Director,
Canadian Imperial Bank of Commerce

Jock K. Finlayson
Vice-Chairman,
The Royal Bank of Canada

J. Peter Gordon
Chairman and Chief Executive Officer,
The Steel Company of Canada, Limited

Eric L. Hamilton
Director,
The Royal Trust Company

G. Arnold Hart, M.B.E., LL.D.,
D.C.L., D.C.Sc.
Director and Former Chairman of the Board
and Chief Executive Officer,
Bank of Montreal

Louis Hébert, O.C.
Company Director
G. W. Humphrey
Chairman of the Board and Chief
Executive Officer,
The Hanna Mining Company

Howard J. Lang, P.Eng.
Chairman of the Board,
Canron Inc.

The Rt. Hon. Lord Polwarth, T.D., D.L.
Director,
Bank of Scotland

Alfred Powis
Chairman and President,
Noranda Mines Limited

Kathleen M. Richardson, O.C.
Director,
James Richardson & Sons, Limited

Ian D. Sinclair, Q.C.
Chairman and Chief Executive Officer,
Canadian Pacific Limited

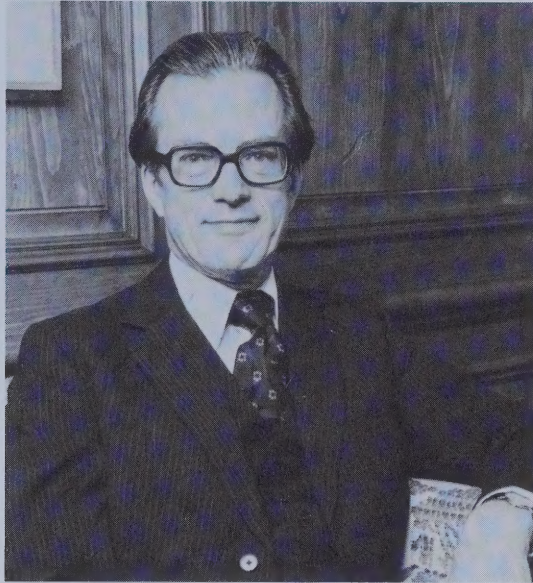
J. Herbert Smith, P.Eng., D.Sc.
Director,
Canadian Imperial Bank of Commerce

John A. Tory, Q.C.
President,
The Thomson Corporation Limited

Marshall M. Williams
President,
Calgary Power Ltd.

Chairman's Address

Thomas M. Galt
Chairman and Chief Executive
Officer



Ladies and Gentlemen:

I have the privilege this afternoon of presiding at the 108th Annual Meeting of the Company. This is the first Annual Meeting to be held outside the City of Montreal and the first since the change of the Company's Head Office from that city to Toronto, approved by our policyholders at the Special General Meeting of the Company held on April 25, 1978.

Mr. Herbert H. Lank retires from the Board at this meeting, having reached the Company's retirement age for Directors. Mr. Lank became a Director in 1966 and a member of the Executive Committee in 1968. His career with Du Pont of Canada and his other varied business experience, including service as a Director of a number of leading Canadian companies, earned for Mr. Lank an outstanding reputation in the business community. On behalf of the Board of Directors, I thank him for his important contributions to Sun Life. The Board will miss his wise and constructive counsel in their deliberations.

I am pleased to inform you that later in this meeting the name of Miss Kathleen Richardson, O.C., will be placed before you in nomination to fill the vacancy created by Mr. Lank's retirement. Miss Richardson is a Director of James Richardson & Sons, Limited, and Gulf Canada Limited. In addition to her business activities, she is known for her interest in cultural activities.

She is Honorary President and member of the Executive Committee of the Board of the Royal Winnipeg Ballet.

Last year, on August 1st, Mr. Alistair M. Campbell became Chairman of the Executive Committee. I was elected by the Board to succeed him as Chairman, continuing as Chief Executive Officer of the Company, and Mr. George F. S. Clarke became President.

Mr. Campbell completed fifty years of service with Sun Life last July. He has been intimately involved in the major developments in the Company's history during this period. Chief Executive Officer of the Company from 1960 until 1973, and Chairman since 1970, Mr. Campbell's contributions have been fundamental to the success which the Company has achieved. I take this opportunity to congratulate him not only on his outstanding career with Sun Life, but for the leading role which he has occupied in the business life of Canada as a Director of many important companies. I am delighted that he is continuing as a Director and Chairman of the Executive Committee of our Board so that his experience and advice continue to be available to me and to the Board.

Mr. Clarke brought to his new position a thorough understanding and knowledge of the life insurance business and of the Company. Prior to becoming President, he was Executive Vice-President, having been appointed to that position in 1972. Mr. Clarke will be presenting the 108th Annual Report of the Company. Before calling upon him to do so, however, I wish to make a few remarks.

The announcement on January 6th last year of the Board's decision to recommend to the Company's policyholders the change of the Company's Head Office from Montreal to Toronto made us the focus of a great deal of public attention. I am pleased to take this opportunity to express the Board's appreciation of the keen interest shown by policyholders in the issues involved and to thank them for their strong support in the vote at the Special General Meeting. It is not my intention to dwell upon



One of the highlights of 1978 for Sun Life was the June meeting of the Company's Board of Directors. The meeting was held in Edmonton in conjunction with the opening of our new 25-storey office building in that city. Some of the city's prominent citizens attended a reception in the new building. In the photograph above, Dr. Maury Van Vliet, President of the XI Commonwealth Games Foundation, is introduced by Patrick J. Grant, Edmonton Property Investments Manager, to the receiving line of Company Directors Marshall M. Williams, Alistair M. Campbell, Thomas M. Galt and George F. S. Clarke.

the events leading up to and surrounding that meeting and the decision taken. Instead, I would like to say something about the Company's progress since then.

Our sales of new individual life insurance in Canada rose by 4% in 1978. This compares with a 2% decrease the previous year. Our individual insurance sales in Canada outside Quebec showed a 20% increase, whereas they had been virtually unchanged in 1977. In Quebec, these sales declined significantly and were 27% below the figure for 1977. This resulted from a 30% reduction which we experienced in our sales force in the Province. Sales production in individual life insurance is directly related to manpower. Our recruiting efforts in the Province in 1978 met with increasing success as the year progressed. We expect our Quebec sales of new individual life insurance policies to show an improvement this year over 1978.

Outside of Canada, individual insurance sales showed marked improvement.

In short, I am happy to report that your Company had a very good year in sales last year. It also had a very good year in the growth of its business in force, which is a reflection of new sales, retention of existing business, and the growth of existing Group cases.

We had an excellent year as well in the growth of assets and the growth of earnings. I should point out, however, that changes in the federal insurance law, which governs our financial reporting, have produced a very different financial statement for us this year as compared to previous years. At

the risk of covering some ground that the President will also cover, I would like to comment briefly on some of the new reporting requirements.

In previous years we have pointed out that the actuarial liabilities shown on our Balance Sheet were calculated on a strong and conservative basis, one which would give protection to our policyholders even if future experience with regard to mortality, interest earnings, or expenses should prove to be quite unfavourable. Since no one is able to predict these elements over the next fifty years and more during which many of today's policies will be in force, it is fundamental that a life insurance company offer its policyholders such protection.

Because of the new federal government regulations, our actuarial liabilities must now be valued in the Balance Sheet on a much less conservative basis, and the margins to provide for the risk of major adverse future experience must be shown separately as surplus. As a result of this reduction in actuarial liabilities, we show this year much larger amounts of surplus than we have in previous years. These amounts are not surplus to our requirements. They are reserves which we hold for contingencies.

The statement of Revenue and Expenditure has also been considerably changed. One controversial change made by the new law is that a portion of unrealized gains or losses on stocks must now be taken into income on a formula basis.

Michelin tires are famous throughout the world and the company maintains offices and plants in many countries. Canadian production is centred in Nova Scotia, where Michelin Tires (Canada) Ltd. commenced operations in 1971. Soon afterwards the company took out a Sun Life group health and disability policy which then covered just under 100 employees. In eight years of operations Michelin (Canada) has grown substantially and Sun Life now insures in excess of 3000 employees at the Granton and Bridgewater, Nova Scotia, plants.



Private placements, investments made directly with the borrower, represent an increasingly important part of Sun Life's investment portfolio. In 1978 the Company acted as the lead lender in such a private placement to Paccar Financial Services Limited. Paccar's principal business is financing, through Paccar of Canada Limited, the manufacture of trucks and tractors and the sale of underground mining vehicles, ore and rock vehicles, mechanical and hydraulic heavy duty winches and log stackers.



We do not agree with the new legislation on a number of points. We particularly disagree with the extent to which it now requires essential safety margins to be shown as surplus, and in the concept that a portion of unrealized gains should be shown as income. We also disagree with the way in which gains arising from changes in currency rates are shown as income. A major part of our net income in 1978 did not arise from any specific activity on our part. Over \$49 million arose from the increase in the United States dollar relative to the Canadian dollar, and hence the increase in the value of the surplus we hold in U.S. dollars, largely to support our United States business. This is not real income but must be shown as such. Also, part of our income arises because we have to take 7% of unrealized

market appreciation of stocks into income. This is not real income either. I am happy to say, however, that even without these items our net income would have shown a modest increase over the previous year.

With regard to the size of the surplus figures shown in our Balance Sheet, I would like to emphasize again that in view of the rather minimal level of the actuarial reserves, and the very unpredictable long-term outlook for interest rates, inflation, and rates of mortality, a very substantial surplus is essential. The primary obligation of a life insurance company is to ensure its financial stability so that its obligations to its policyholders can be fulfilled.

Last August I was pleased to announce, at a joint press conference with Olympia and York Developments Limited, that we were negotiating with them for a new Head Office building in Toronto to be called the Sun Life Centre. These negotiations are still proceeding. It is our intention that the building will replace in due course our present building at 200 University Avenue as our Head Office and will be the location of the central management of the Company and a supporting staff organization. It is our present plan that the main portion of our insurance operations for Canadian policyholders will continue in Montreal. Those operations, together with our Quebec organization, would represent a very substantial continuing presence in that Province.

Turning now to the economic outlook, we are reasonably confident, despite the problems and uncertainties surrounding the world economy at this time, that 1979 will prove to be a year in which real economic growth will be achieved. The rate of real gain will be low by earlier standards – in the 3-4% area generally for industrial countries – but such an outcome would represent solid progress given the serious financial imbalances and energy constraints that afflict many leading industrial countries.

In Canada, we expect the growth in the economy in real terms to be in this 3-4% range this year. The course of the economy



Sun Life introduced a Community Service Awards Program in the United States last year to encourage and reward outstanding volunteer community service by Sun Life employees and sales representatives. Here Arthur Moore (standing left), Manager of Sun Life's Jacksonville, Florida, agency, and James Hamilton (standing right), Vice President, Agencies, for the United States, visit with participants in a workshop sponsored for mentally handicapped people by the Clay County Association for Retarded. The organization received a \$1,000 cheque in recognition of Mr. Moore's work with the group since 1975. He was one of five award recipients.

is bound to be influenced by the fall in the external value of the Canadian dollar that has occurred since late 1976. Against the U.S. dollar, the decline has been about 19%. Against such major currencies as the German mark, the Swiss franc and the Japanese yen, the fall has been much greater.

The inflationary consequences of this fall in the external value of our money is a serious matter and the full impact is yet to be realized.

The positive side of this devaluation is that it creates opportunities for Canadian producers of goods and services to compete more effectively with foreign producers in those areas where price is critical. This applies to domestic Canadian as well as foreign markets. The ability and determination of business to respond to these opportunities will importantly determine the outlook for the Canadian economy not only in 1979 but beyond.

With 70% of Canada's trade being with the United States, the condition of our economy and its rate of progress is importantly influenced by conditions there. We expect that the American economy will advance at a slower rate in 1979 than it did in 1978 but that it will, nevertheless, achieve real growth of about 2½ %. Developing indications of an improvement in the external

financial position of the country could mark a decisive turn for the better with important implications for the rate of inflation, for the level of interest rates and so for more rapid economic progress. We are confident a major recession will be avoided in 1979 in the United States and that the year will be marked by a further increase in real income there.

In summary, despite the uncertainties, both economic and political, which surround the business outlook for 1979 in Canada, we expect a year where conditions should be reasonably good. We also expect another good year for the Company.

Delivered at Toronto
February 13, 1979

President's Address

George F. S. Clarke
President



Mr. Chairman, Ladies and Gentlemen:
I am pleased to present on behalf of the Directors the 108th Annual Report of the Company. It was a most eventful year for Sun Life and a very successful one in practically all aspects of our operations.

The operations of the Company are diverse as exemplified by the many types of benefits marketed through our agency and group distribution systems in different parts of the world. Our principal operations are in Canada, the United States and Britain. We have also important business operations in Ireland, the Philippines, Malta and Bermuda, as well as in Hong Kong where we recommenced business in 1978 after several years' absence from that market.

New Business

In each of our countries of operation we had a very good year in new business. Premiums payable on all new business written, amounted to \$184 million, 14% more than in 1977.

Life insurance sales were the highest in our history, at \$4.8 billion of new life insurance coverage. Individual life insurance sales increased by 12% and though group life insurance sales were off 3% in volume of coverage, the number of group policies sold increased substantially in all countries. In Canada, while sales of individual life insurance were understandably lower in the province of Quebec, sales in the other

nine provinces were up 20%. In the United States they were up 20% and in other countries they were up 16%.

The Company transacts a large annuity and pension business. In 1978 we sold new individual and group annuity policies for premiums of \$123 million. This was an increase over the preceding year of 16%. Guaranteed contracts represent the bulk of our annuity business but we also have substantial amounts of variable accumulation and investment-linked types of contracts. The assets pertaining to the latter policies are held separately from those of our guaranteed policies and they are shown in the Balance Sheet as segregated funds. Also transactions pertaining to these policies are shown separately in the Statement of Income.

In health insurance our new business is on a group basis only. Much of it is long term disability coverage but dental insurance is also becoming an important health product for us in both Canada and the United States. Group health insurance sales in 1978 amounted to \$9.7 million of premiums, 66% ahead of 1977.

Business in Force

Total premiums received on all business in force amounted to \$795 million and the growth in our business, measured by the increase in premiums collected during the year, was 12%. Total life insurance in force at the end of the year was \$41.9 billion of life insurance coverage, an increase of \$6 billion. Our annuities provide for current and deferred annual payments of \$355 million.

At year end we had more than 1.6 million individual policies in force and over four million certificate holders under group policies.

Revenue and Expenditure

The company's total revenue from all sources amounted to \$1,382 million. In addition to premium income referred to, the other major item is investment income of \$434 million, \$70 million more than in 1977. Part of the increase is attributable to the

In 1978 the Company re-established business in Hong Kong after several years absence from that country. Pictured above is H. G. Douglas McLaren, Regional Manager for the Philippines and Hong Kong, and his Executive Secretary, Miss Juliana To.



amount which must now be included under the accounting principles prescribed by the Federal Department of Insurance as income from realized and unrealized gains and losses in our investment portfolio.

Our net rate of return from investment income was 8.42%. Under the previous system of accounting this yield would have been 8.15% or .29 above our 1977 rate of return.

Also, unusual items such as Net Adjustment of assets and liabilities due to changes in rates of currency translation must now be shown as a revenue item.

Our largest item of expenditure was payment to policyholders and beneficiaries, which came to \$585 million. Of this \$115 million was in dividends to policyholders. Operating expenses at \$179 million reflect the considerable growth in our business and increases in costs. Our cost control program continues to work effectively in helping to limit the impact of inflationary pressures on our operations.

The main factors of profitability for the Company are satisfactory investment results, control of costs and favourable claims experience. Over recent years we have experienced fewer death claims than expected with the result that earnings from mortality continue to be favourable. Continuing advances in medical science, greater availability of medical services, and a growing awareness by individuals that they can do much to improve and maintain their own personal health through better living habits, have led to the improvement in mortality. An important part of modern health con-

sciousness is the growing interest by the public in physical fitness. This is evidenced by the rapid growth in such activities as hiking, cycling and cross-country skiing. Our own Company's interest in improving awareness of the benefits of healthy leisure activities is demonstrated by our public relations program.

Assets and Liabilities

Assets at year end totalled \$6.4 billion, an increase of \$853 million. These assets are invested in broadly diversified securities and properties of high quality. The accounting changes of which the Chairman spoke had a small effect on our assets as shown in Note 4. More significant was the effect of adjustments in the rates of exchange for United States dollars and British pounds and some other currencies. The book rate of exchange for United States dollars, which had been at par, is now at Can. \$1.10. The British pound, which had been at Can. \$2.00 is now valued at Can. \$2.20. Disregarding these adjustments the increase in our assets is still the largest in the Company's history.

The valuation of our actuarial liabilities under the new requirements of the Canadian and British Insurance Companies Act, has reduced them substantially. The Chairman has stressed the need for a life insurance company to maintain adequate margins for adverse fluctuations in experience which are significantly greater than those assumed in computing the actuarial liabilities. To preserve the financial strength of the Company, and to safeguard our policyholders' interests, amounts released under the new regulations have been put into Surplus to meet various general contingencies, and into Appropriated Surplus to meet various specific contingencies and statutory requirements. Six reserves are included in Appropriated Surplus. They are: the reserve for Fluctuation in Security Values, Fluctuation in Currency Values, Fluctuation in Group Mortality, Foreign Statutory and Other Deficiency or Solvency Requirements, Statutory



The Sun Life is financing an important real estate development in downtown Vancouver, a 16-storey office building expected to be completed in 1980. This building, which will add importantly to the Company's presence in Vancouver, is part of Sun Life's growing real estate investment portfolio, now in excess of \$440 million.



Members of the Policyholder Service Department, London Administrative Office, shown operating recently-installed computer equipment which enables information held on the master records in Montreal to be displayed within seconds.



Sun Life invested \$3 million in a \$75 million plant modernization project of Kaiser Cement and Gypsum Corporation, Oakland, California. The modernization project will enable the plant to increase cement capacity as well as reduce pollution in the San Francisco Bay area.

Asset Valuation and Health Contingency Reserve. Details of the adjustments are shown in the Statement of Appropriated Surplus and in the Statement of Surplus. The Company's Net Income in 1978 was \$126 million of which \$90 million was added to Appropriated Surplus and \$36 million to Surplus. At the year end Appropriated Surplus was \$511 million and Surplus was \$722 million.

Dividends

As a result of our excellent year, the scale of dividends to participating policyholders in Canada, the United States, Britain and the Philippines, will be increased significantly effective April 1, 1979. In these countries there will also be increases in the rates of interest for funds on deposit.

These increases mean further cost reductions and improved financial results for most participating policyholders. We have also reduced prices on many non-participating insurance and annuity plans. We continue to have an excellent net cost

position amongst Canadian companies, in fact we are amongst the best in the industry.

You may have noted that the \$115 million paid to policyholders in dividends in 1978 is considerably greater than the provision for dividends and experience rating refunds shown under actuarial liabilities in the Balance Sheet. Here again accounting changes require that the major part of dividends payable in the following year be included in the provision for unmatured obligations whereas in previous years the provision for dividends payable in the following year included the total amount.

Operations

The financial results indicate the success the Company experienced in 1978. They reflect the Company's satisfactory operations in sales, administration, product development, investments and other support areas.

The life insurance market is a very competitive one. Existing products must be continually improved and new ones introduced. Rates in the annuity field must be

This new 22,000 square feet office block situated in an attractive suburb of Manchester is leased to the Esso Petroleum Company and forms the security for one of Sun Life of Canada's more recent commercial mortgages in Britain.



Lincoln Electric of Cleveland, Ohio, founded in 1895, is widely known in its field as the world's largest manufacturer of arc welding machines and electrodes. Its main business is in the United States with subsidiaries in Canada, Australia and France. A company with an excellent program of fringe benefits, Lincoln Electric has for the past 20 years also offered a formal guarantee of continuous employment for all regular employees with over two years service. Sun Life provides protection in the form of a group pension plan for Lincoln Electric employees, a policy which has been in force since 1936.



reviewed frequently to keep in line with changes in interest rate levels. We had a busy year in product development.

In Canada we introduced a new settlement option for benefit payments through a term deposit with guaranteed interest, a new benefit called Future Purchase Option, which is a guaranteed insurability option designed for partnership insurance, and a reducing joint term plan which pays a benefit on the first death of two lives. In the Group field, our new Five Plus Package offers a group plan designed for small groups of five or more people, to complement our wide range of products and services for the large employer market.

In the United States our new product developments were directed toward specialized markets. In the small employer pension market we introduced a side fund plan for deposits of future premiums and now offer new competitive guaranteed issue rules for life insurance benefits provided in conjunction with pension plans. In the annuity business we improved the rates and design of our immediate annuity products and introduced two new plans – a Flexible Premium Retirement Annuity and a Single Premium Deferred Annuity.

In Britain the main product developments included the introduction of a new range of term plans and term riders, and a new personal pension plan which provides retirement benefits on a tax-approved basis for the self-employed and others not covered by employers' pension schemes. We also revised our individual money purchase plan which provides retirement benefits for individual employees and small groups of employees on a tax-approved basis, with provision for widows' pensions.

In our investment operations during the year, we again took advantage of the attractive interest rates available on bonds by directing the major part of our funds available for investment in this area. Our government bond holdings, particularly in Canada and Britain, showed a marked increase. Additions to our equity and real estate portfolios were somewhat smaller than in 1977. In Canada we made our first direct investment in the ownership of natural gas and oil resources.

In both the United States and Canada our private placement bond purchases included an important proportion of energy related investments which will assist in the production and distribution of coal, oil, gas and electric power.

In property investments we had an active year, in both mortgage and real estate markets. A highlight was the approval of the largest single mortgage commitment ever made by the Company on a new 18-storey office building in Calgary. We made a major real estate commitment for the development of a 16-storey office building in Vancouver. This is expected to be completed in 1980 and will add to the Company's growing presence in that city. We also made property investments in a number of smaller communities across Canada. In the United States we obtained mortgage commitments of \$81 million, a substantial increase over the previous year. Our new mortgage commitments in Britain totalled £7.5 million.

To keep pace with expanding requirements for computer capacity to service our total business, we now have on order an IBM 3033 Computer. This will be delivered

to us at a suburban site in Toronto this year. Our central systems development and computer operations to service our business in all our countries of operation will thus be located close to the central management of the Company. The new computer will be linked to ancillary computer facilities in Boston, London and Montreal.

Growth

The Company's financial statements show that Sun Life is in a strong position with substantial financial resources. As a result, we are well placed to increase the extent and scope of our operations. The life insurance industry is still in my view a growth industry and sustained, profitable growth is the real measure, long term, of the Company's competence. It is without question the essential ingredient, while not the only factor, in the productivity improvement needed to maintain our total organization in good working order and to keep our strong competitive position.

Our main avenue of growth is, of course, through our regular product lines in life and health insurance and annuities both in our existing countries and in new ones should conditions be favourable for development. We intend to continue to make every effort to utilize effectively the full resources of the Company. To do so we must also take advantage of other opportunities open to us beyond our main business. The Canadian Insurance Act empowers us to market, on a fee basis, certain services which are ancillary to the sale of life insurance. Our subsidiaries in Canada, Sun Life of Canada Investment Management Limited and Sun Life of Canada Benefit Management Limited and in the United States Suncan Equity Services Company and Suncan Benefit Services Company now offer investment, administrative, actuarial and other services on a fee basis to meet the perceived needs of our clients. The assets under management by our Canadian and United States investment management subsidiaries increased from \$182 million to \$226 million during the year. Suncan Equity Services also markets Sun Growth Fund, a United States mutual fund which is sponsored by the Company. The activities of these subsidiaries are now making a contribution to the Company and we expect their operations to expand in the coming years.

I believe that growth is our greatest challenge as it is the key to the future health and prosperity of the Company and thus to the benefit of our policyholders. In a service industry such as life insurance, the skills and abilities of our men and women constitute our real strength. It is thus imperative that our staff and field force be provided with every opportunity to develop and use their skills and abilities to the fullest extent possible.

The year 1978 presented many people in Sun Life with special problems and difficulties. These were met and overcome and I am extremely pleased to be able to report to you, our policyholders, such fine results. On your behalf, I thank all the people in the Company for their contribution to Sun Life's progress. We are looking forward to the future with great confidence.

Delivered at Toronto
February 13, 1979

Balance Sheet

as at December 31, 1978

Assets

Bonds	\$2,530,361,483
Preferred and common stocks	633,046,549
Mortgage loans	1,478,395,890
Real Estate – Company buildings	22,027,675
Real Estate – Held for investment	420,442,587
Loans to policyholders on their policies	345,011,648
Cash	22,409,805
Other invested assets	14,603,972
Investment in subsidiary life insurance and service companies	13,795,675
Investment income due and accrued	88,590,705
Outstanding premiums	25,871,983
Miscellaneous assets	28,774,983
Segregated fund assets	771,681,413
	<u>\$6,395,014,368</u>

Liabilities and Surplus

Actuarial liabilities:	
Reserves for unmatured obligations	\$3,614,150,199
Reserves for pension and survivor benefits	36,064,482
Provision for dividends and experience rating refunds to policyholders	55,362,145
	<u>\$3,705,576,826</u>
Policy proceeds and other amounts left at interest	402,711,663
Policy benefits in process of payment and provision for unreported claims	202,278,988
Accrued expenses	29,266,292
Miscellaneous liabilities	50,385,839
Segregated fund liabilities	771,681,413
Appropriated surplus	511,092,156
Surplus	722,021,191
	<u>\$6,395,014,368</u>

Statement of Income

For the year ended December 31, 1978

Revenue

Premiums – Life Insurance	\$457,588,930	
– Annuities	183,895,074	
– Health Insurance	82,225,117	
– Segregated Funds	<u>71,739,522</u>	\$ 795,448,643
Investment Income		433,820,508
Net adjustment of assets and liabilities due to change in currency rates of exchange		49,110,966
Segregated fund investment and other income (including appreciation in assets of \$41,531,606)		<u>103,591,923</u>
		<u>\$1,381,972,040</u>

Expenditure

Payments to policyholders and their beneficiaries:		
Death benefits	\$127,503,104	
Disability benefits	3,338,384	
Matured endowments	30,518,670	
Annuity payments	74,023,267	
Dividends	115,578,044	
Surrender values	94,659,608	
Interest credited to claims and amounts on deposit	26,431,768	
Health benefits	70,766,597	
Segregated fund payments	<u>42,531,081</u>	\$ 585,350,523
Additions to actuarial liabilities		318,305,222
Segregated fund increases and expenses		132,800,364
Operating expenses		179,396,426
Government taxes		<u>40,347,562</u>
		<u>\$1,256,200,097</u>

Net Income

\$ 125,771,943

Statement of Appropriated Surplus

For the year ended December 31, 1978

	Balance December 31, 1977	Accounting Changes (Note 4)	1978 Appropriations	Balance December 31, 1978
Surplus Appropriated for				
Fluctuation in Security Values	\$176,300,000	\$ 62,300,000	\$ 30,112,500	\$268,712,500
Fluctuation in Currency Values	—	40,700,000	50,050,000	90,750,000
Fluctuation in Group Mortality	—	25,800,000	2,200,000	28,000,000
Foreign statutory and other deficiency or solvency requirements	—	91,776,920	6,205,463	97,982,383
Statutory Asset Valuation	—	12,204,517	2,696,748	14,901,265
Health Contingency Reserve	—	12,359,508	(1,613,500)	10,746,008
	<u>\$176,300,000</u>	<u>\$245,140,945</u>	<u>\$ 89,651,211</u>	<u>\$511,092,156</u>

Statement of Surplus

For the year ended December 31, 1978

Balance, December 31, 1977	\$455,501,939
Accounting changes (Note 4)	<u>230,398,520</u>
Balance January 1, 1978, as restated	\$685,900,459
Net Income	125,771,943
Transferred to Appropriated Surplus	<u>(89,651,211)</u>
Balance, December 31, 1978	<u>\$722,021,191</u>

Notes to Financial Statements

December 31, 1978

1. Accounting Principles

The financial statements have been prepared in accordance with the accounting principles prescribed or permitted by the Federal Department of Insurance of Canada. Such principles were amended in 1978 and necessitated certain adjustments to the previously reported figures as at December 31, 1977; these adjustments are described in Note 4.

The more significant principles now followed by the Company are set out below:

(a) *Invested Assets*

Bonds, stocks and mortgages are carried at values prescribed by the Canadian and British Insurance Companies Act. The Act requires that realized gains and losses on sales of bonds and mortgages are to be amortized, on a straight line basis, over the period to maturity (maximum of 20 years). Realized gains and losses on sales of stocks are to be taken into income on a 7% declining balance basis; unrealized gains and losses on stocks are to be treated in a similar manner.

Bonds and mortgages are carried at amortized values, adjusted for the unamortized portion of the gains or losses described above.

Stocks are carried at cost, adjusted for the unamortized portion of the realized gains or losses described above and for the cumulative amount of unrealized gains or losses previously reflected in income.

Certain securities which had been written down from cost or amortized values prior to 1977, are treated as if purchased on December 31, 1976 at their book values then.

(b) *Subsidiaries*

Subsidiary life insurance and service companies are accounted for on the equity basis.

(c) *Segregated Funds*

Segregated Fund assets are carried at market values.

(d) *Acquisition Costs*

Costs of acquiring new business are charged against income as they are incurred.

(e) *Translation of Foreign Currencies*

Revenue and expenditure in foreign currencies are translated into Canadian dollars at book rates approximating the actual rates of exchange at the beginning of the year. Assets and liabilities are carried at book rates approximating the actual rates of exchange at the end of the year. Net adjustments to assets and liabilities resulting from changes in the book rates of exchange are reported in the Statement of Income in the year the changes are made.

(f) *Investment Income*

Investment income consists of interest, dividends, rents, (net of Real Estate expenses, taxes and depreciation) and the amortization of gains and losses as described in Note 1(a).

(g) *Income Taxes*

The Company follows the taxes payable method.

2. Actuarial Liabilities

The reserve for unmatured obligations shown on the Balance Sheet represents the amount which, together with future premiums and investment income, will provide for future benefits to policyholders, certificate holders or to their beneficiaries.

In accordance with the new requirements of the Act, beginning in 1978 the computation of actuarial liabilities provides for dividend expectations and for only modest adverse fluctuations in future experience. Provision for more severe adverse fluctuations and statutory solvency safeguards are to be made through appropriations of surplus.

3. Company Pension Plans

(a) All accrued benefits under Company pension plans are fully funded.

(b) The amount shown in the Balance Sheet covers only the portion of the Company's pension and survivor benefits that is not carried in the reserves for unmatured obligations.

4. Accounting Changes

As a result of the amendments to the Canadian and British Insurance Companies Act the Company changed a number of its accounting and actuarial practices effective January 1, 1978. The more significant changes related to (a) the valuation of bonds, mortgages and stocks and the treatment of the gains and losses on such securities (b) the computation of the reserves for unmatured obligations as described in Note 2 and (c) the classification of surplus.

To reflect these changes it was necessary to adjust the previously reported figures as at December 31, 1977. Assets were increased by \$17,378,173, actuarial liabilities decreased by \$364,344,791, provision for dividends reduced by \$93,816,501 and thus surplus increased by \$475,539,465. Of this amount, \$245,140,945 was transferred to appropriated surplus and the net addition to surplus amounted to \$230,398,520.

Valuation Actuary's Certificate

I certify that in my opinion the Actuarial Liabilities included in the Balance Sheet, taking into account the financial position of the Company, make appropriate provision for future benefits payable under the Company's policies in force December 31, 1978 and have been properly reflected in the calculations of net income. Appropriations of Surplus have been made to provide against adverse fluctuations in experience significantly greater than those assumed in computing the Actuarial Liabilities. I further certify that to my knowledge no commitments have been made nor any changes in Company policy approved or implemented that would materially affect the financial position of the Company.

A. C. M. Robertson, F.F.A., F.C.I.A.
Valuation Actuary

Montreal, January 31, 1979

Auditors' Report

The Participating Policyholders,
Sun Life Assurance Company of Canada.

We have examined the balance sheet of Sun Life Assurance Company of Canada as at December 31, 1978 and the statements of income, appropriated surplus and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included a general review of the Company's accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

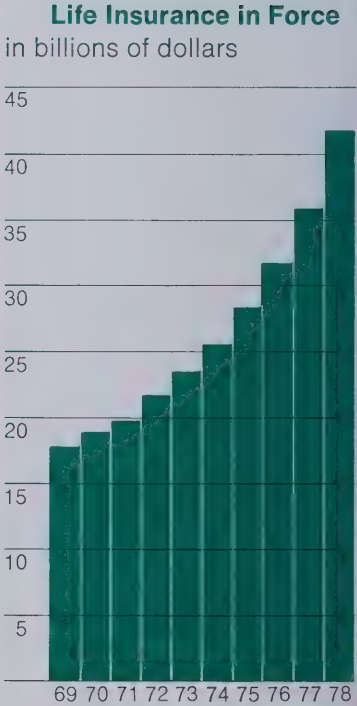
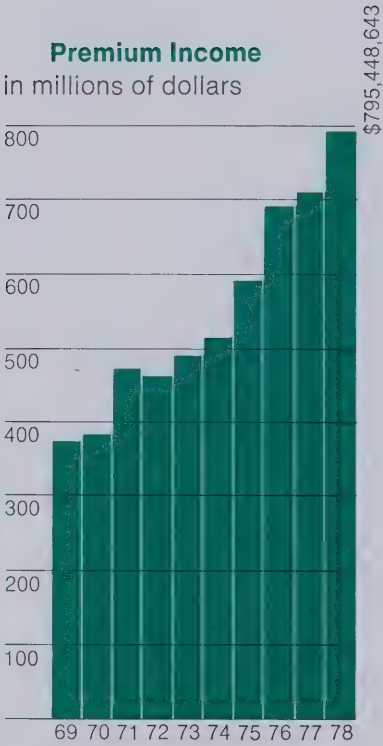
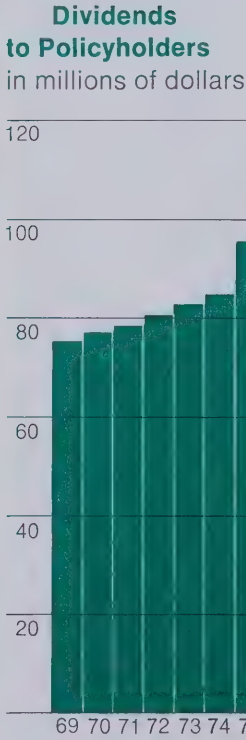
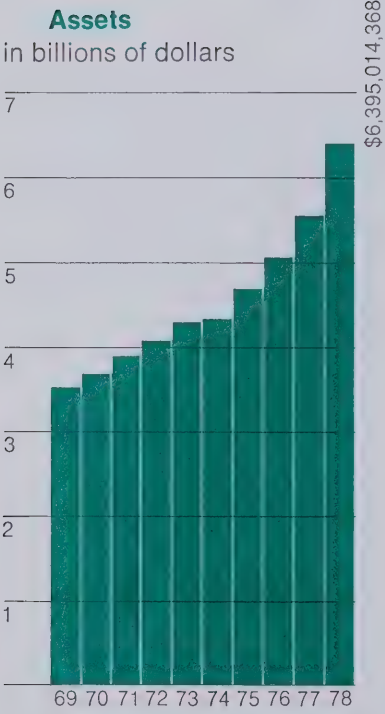
We have relied on the certificate of the Company's Valuation Actuary as to the valuation of the actuarial liabilities.

In our opinion, these financial statements present fairly the financial position of the Company as at December 31, 1978 and the results of its operations for the year then ended in accordance with the accounting principles prescribed or permitted by the Federal Department of Insurance of Canada applied, except for the changes as described in note 4, on a basis consistent with that of the preceding year.

(Signed) Touche Ross & Co.
Chartered Accountants

Toronto, February 1, 1979

Sun Life Growth



Sun Life Service Around the World

Canada

Barrie
Brandon
Calgary
Chicoutimi
Cornwall
Edmonton
Granby
Halifax
Hamilton
Kamloops
Kingston
Laval
Lethbridge
London
Moncton
Montreal
New Westminster
Ottawa
Prince George
Quebec
Regina
Rimouski
Saskatoon
Sept Iles
St. Catharines
St. John's
Sudbury
Thunder Bay
Toronto
Trois-Rivieres
Vancouver
Victoria
Waterloo
Windsor
Winnipeg

United States

Arlington
Atlanta
Baltimore
Boston
Cherry Hill
Chicago
Cleveland
Columbus
Concord
Coral Gables
Dallas
Denver
Detroit
Grand Rapids
Hartford
Honolulu
Houston
Indianapolis
Jacksonville
Jenkintown
Kansas City
Los Angeles
Louisville
Miami
Minneapolis/St. Paul
Newark
New Haven
New Orleans
Orlando
Peoria
Philadelphia
Phoenix
Pittsburgh
Portland, Me.
Portland, Or.
Providence
Sacramento
San Diego
San Francisco
San Jose
San Juan
Santa Ana
Seattle
Spokane
Springfield, Ma.
St. Louis
Tallahassee
Tampa
Washington, D.C.
Wellesley Hills

Great Britain and Ireland

Aberdeen
Beckenham
Belfast
Birmingham
Brighton
Bristol
Bromley
Chester
Colchester
Croydon
Dublin
Edinburgh
Glasgow
Ipswich
Leeds
Leicester
Liverpool
London
Maidstone
Manchester
Newcastle
Northampton
Plymouth
Preston
Reading
Sheffield
Southampton
Wolverhampton

Bermuda

Hong Kong

Malta

Philippines

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Chairman and Chief Executive Officer

George F. S. Clarke, F.S.A.

President

J. Taylor Bradbury, F.L.M.I.

Senior Vice-President

J. A. Brindle

Senior Vice-President and General Manager
for Great Britain and Ireland

H. R. Facey

Senior Vice-President, Group

F. Herbert Frizzell

Senior Vice-President and Chief
Agency Officer

John R. Gardner, F.S.A.

Vice-President, Group

Donald L. Gauer, F.S.A.

Vice-President and Actuary

S. James Gowdy

Vice-President, Personnel

John H. Harrison

Vice-President, Property Investments

W. Allan Keltie, F.S.A.

Vice-President, Underwriting

J. S. Lane, C.F.A.

Vice-President, Securities Investments

P. R. MacGibbon

Vice-President, Corporate Relations

W. J. McCarthy

Senior Vice-President, Finance

Graham McCracken

✓ Vice-President and General Counsel

George L. Meltzer

Senior Vice-President and General Manager
for the United States

O. A. Reed, F.S.A.

Vice-President and Actuary

A. C. M. Robertson, F.F.A.

Senior Vice-President and Chief Actuary

F. Santangeli, C.L.U.

Secretary

François Vachon, F.S.A.

Vice-President and Comptroller

D. H. Woodhouse, M.D.

Vice-President and Medical Director

Principal Officers

Canada

Pierre Boileau

Vice-President, Quebec

K. M. Stewart

Vice-President, Agencies

United States

George L. Meltzer

Senior Vice-President and General Manager

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Vice-President, Administration

J. Jacques Deschênes, F.S.A., C.G.A.

Vice-President and Actuary

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Vice-President, Agencies

David D. Horn

Vice-President and Counsel

Alexandre Parodos, F.S.A.

Vice-President, Group

David B. Wray

Vice-President, Investments

Great Britain and Ireland

J. A. Brindle

Senior Vice-President and General Manager

M. E. Bates

Treasurer

R. J. Fredericks

Legal Adviser and Secretary

P. R. Isgar

Manager of Agencies

S. J. Quirk

Actuary

